

Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 EB-08 DOE-15 SOE-02 INT-05 AID-05
/046 W

-----058502 181519Z /47

R 181045Z APR 78
FM AMEMBASSY MBABANE
TO SECSTATE WASHDC 4505
INFO AMCONSUL JOHANNESBURG
AMEMBASSY GABORONE
USDOC WASHDC
AMEMBASSY PRETORIA

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E.O. 11652: N/A
TAGS: BEXP, BFOL, BENC, WZ
SUBJECT: COAL PROCESSING PLANT FOR SWAZILAND

REF: (A) STATE 94335, (B) STATE 60395, (C) STATE 69626

1. POST WELCOMES REF (A) SENSE OF URGENCY CONCERNING COAL PROCESSING PROJECTS FOR SWAZILAND. FOLLOWING IS BASED ON EMBOFF'S TALKS WITH GOS OFFICIALS AND PRIVATE BUSINESSMEN CONCERNING FEASIBILITY OF PROJECTS.

2. THERE ARE TWO SEPARATE LINES OF LOCAL THOUGHT ON THIS ISSUE; HOWEVER, BOTH SIDES AGREE THAT COAL PROCESSING IS BOTH DESIRABLE AND FEASIBLE FOR SWAZILAND. THE DIFFERENCE LIES IN THE TYPE OF PROJECTS TO BE PURSUED. ALLEN DLAMINI, HEAD OF GEOLOGICAL SURVEY AND MINES, AND MOST PRIVATE SECTOR BUSINESSMEN FAVOR RELATIVELY SMALL PROJECTS FOR ON-SITE GASIFICATION AS WELL AS A THERMAL POWER PLANT. ALLEN NXUMALO, MINISTER OF WORKS, POWER AND COMMUNICATION, FAVORS A SASOL-TYPE PROJECT, (WHICH WOULD REQUIRE A MASSIVE INVESTMENT) TO PRODUCE PETROLEUM AND EVENTUALLY PETROLEUM-BASED PRODUCTS. NXUMALO HAS FORMALLY

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REQUESTED WEST GERMAN GOVERNMENT TO FINANCE A FEASIBILITY STUDY BY A GERMAN FIRM K. D. H. WHICH MAINTAINS AN OPERATION IN SOUTH AFRICA. POST SEES THIS LATTER PROJECT AS UNREALISTIC FOR SWAZILAND.

3. SWAZILAND CURRENT COAL EXPLOITATION, FOR BOTH DOMESTIC USE AND EXPORT, IS MINIMAL (60,000 TONS PER YEAR). ALTHOUGH RESERVES

ARE NOT PROVEN AS YET, THERE ARE SEVERAL HUNDRED MILLION TONS OF ANTHRACITIC HIGH-GRADE, HIGH-VOLATILE COAL AS WELL AS SEVERAL HUNDRED MILLION TONS OF LOWER GRADE COAL. (USING WIDELY INFLATED FIGURES FOR INCREASED FUTURE CONSUMPTION, SWAZILAND HAS ENOUGH COAL RESERVES FOR 400 YEARS). WHEN SURVEYS ARE COMPLETED, THEY ARE EXPECTED TO SHOW THAT GOS HAS RESERVES OF 1 BILLION TONS.

4. SHELL COAL HAS BEEN DOING TEST DRILLING IN SWAZILAND FOR SEVERAL YEARS AND IS ABOUT TO MAKE GOS AN OFFER FOR MINING HIGH-GRADE, LOW-SULPHUR COAL. THE COAL IS REMARKABLY LOW IN SULPHUR AND WOULD BE EXPORTED TO JAPAN, EUROPE, AND U.S. AS A REDUCTANT FOR OXIDE OR SULFIDE ORES. HOWEVER, EVEN WHEN EXPORT MARKETS ARE DEVELOPED (SHELL IS WORKING ON THAT NOW) THERE STILL WOULD BE SUFFICIENT COAL FOR DOMESTIC USE.

5. LOWER GRADE COAL IN SWAZILAND TENDS TO PRODUCE HIGH-GRADE COAL WHEN WASHED; IT BECOMES LOW-ASH, LOW-CARBON, HIGH-CALORIFIC, WITH A 70 PERCENT YIELD OF HIGH QUALITY COAL. THE LOWER GRADE, EVEN WHEN WASHED, IS STILL HIGHER IN SULPHUR CONTENT THAN SWAZILAND'S COAL. HOWEVER, IT IS STILL QUITE USABLE FOR COAL TO GAS PROCESS.

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INFO OCT-01 ISO-00 EB-08 DOE-15 SOE-02 INT-05 AID-05
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-----058929 181519Z /47

R 181045Z APR 78
FM AMEMBASSY MBABANE
TO SECSTATE WASHDC 4506
INFO AMCONSUL JOHANNESBURG
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6. GOS FEELS THAT SWAZILAND HAS MORE THAN SUFFICIENT RESERVES FOR DOMESTIC USAGE. USUTU PULP MILL HAS DECIDED TO GO AHEAD ON ITS OWN AND EXPAND ITS PILOT PROJECT (MBABANE 0465). USUTU WILL CONVERT AT LEAST ONE OF ITS FURNANCES TO A COAL-TO-GAS PROCESS; COAL-TAR OIL WILL BE

DRAINED OFF AND TREATED FOR USE AS FURNANCE FUEL FOR OTHER BURNERS. AT PRESENT, USUTU IS PAYING E87 PER TON FOR INDUSTRIAL FURNACE OIL WHILE HIGH-GRADE COAL IS SELLING FOR E30 PER TON. THE PLANT MANAGER AT USUTU ESTIMATES THAT IT CAN PAY BACK THE LOAN FOR THE CONVERSION PROCESS IN FIVE YEARS OUT OF FUEL SAVINGS.

A. THE HOLIDAY INN COMPLEX (THREE HOTELS AND A CASINO) IS DEFINITELY INTERESTED IN INSTALLATION OF A COAL-TO-GAS PROCESS TO CUT DOWN ON ELECTRICITY COSTS WHICH HAVE RISEN 300 PERCENT IN FIVE YEARS. IF PLANT COSTS ARE TOO HIGH, THEY STILL WOULD BE INTERESTED IN PURCHASING GAS.

B. GOS IS MAKING A MAJOR EFFORT TO SET UP A PELLETIZATION PLANT IN ORDER TO KEEP ITS ONLY IRON ORE MINE LIMITED OFFICIAL USE

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OPERATING. LUXEMBOURG HAS AGREED TO ASST GOS IN SETTING UP PLANT. DEPENDING ON DESIGN OF PLANT, IT COULD BE A MAJOR USER OF COAL GASIFICATION OR RAW COAL.

C. ANOTHER MAJOR POSSIBILITY WOULD BE THERMAL POWER PLANT. ALTHOUGH FINANCING FROM RSA HAS FALLEN THROUGH, GOS IS STILL DEFINITELY INTERESTED IN ORDER TO ACHIEVE A GREATER MEASURE OF ENERGY INDEPENDENCE FROM SOUTH AFRICA. GOS IS THINKING IN RANGE OF 30 MEGAWATT POWER STATION. ACCORDING TO OFFICIALS AT SWAZILAND ELECTRICITY BOARD (SEB), THERE ARE SEVERAL STATIONS IN U.S. OF THIS SIZE THAT ARE PILOT PROJECTS FOR LARGER PLANTS. SEB OFFICIALS FEEL THAT AN ALREADY PROVEN PILOT PROJECT IN U.S. COULD BE AN OPERATIONAL COMMERCIAL REALITY IN SWAZILAND.

7. REGIONAL MINERAL OFFICER SWEETWOOD WILL BE VISITING SWAZILAND FOR FURTHER INVESTIGATION OF FEASIBILITY OF COAL PROCESSING PROJECT IN SWAZILAND.

8. POST HAS BEEN CONTACTED BY BECHTEL REPRESENTATIVE CLEMONS, WHO IS BASED IN JOHANNESBURG. POST PROVIDED FACILITATIVE ASSISTANCE IN SETTING UP APPOINTMENTS WITH KEY GOS OFFICIALS CONCERNED WITH ENERGY AND TRANSPORTATION. CLEMONS WILL RETURN TO SWAZILAND IN EARLY MAY.

9. WISH EMPHASIZE THAT, CONTRARY TO VIEW IN PARA 2, REF (C), POST FEELS COAL PROCESSING PROJECT WOULD BE VIABLE AND FEASIBLE FOR SWAZILAND. WE ARE AWARE OF COMMENTING IN PAST ON "AIR OF UNREALITY" SURROUNDING

MANY PROPOSED GOS PROJECTS. HOWEVER, OUR BELIEF THAT
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COAL PROCESSING PLAN IS REALISTIC PROMPTED US TO PURSUE
MATTER WITH WASHINGTON FOR SEVEN MONTHS. RESULTS OF EVALUATION
BY BECHTEL (AND ANY OTHER FIRMS THAT DEMONSTRATE INTEREST)
SHOULD REVEAL EXTENT TO WHICH THIS PROPOSAL SHOWS
PROMISE OF EXPANDING U.S. TRADE AND INVESTMENT RELATIONS
WITH SWAZILAND.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 18 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MBABAN01317
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780165-1083
Format: TEL
From: MBABANE
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1978/newtext/t19780445/aaaabmfj.tel
Line Count: 184
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Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 739207ac-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 94335, 78 STATE 60395, 78 STATE 69626
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2934467
Secure: OPEN
Status: NATIVE
Subject: COAL PROCESSING PLANT FOR SWAZILAND
TAGS: BEXP, BFOL, BENC, WZ
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/739207ac-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014